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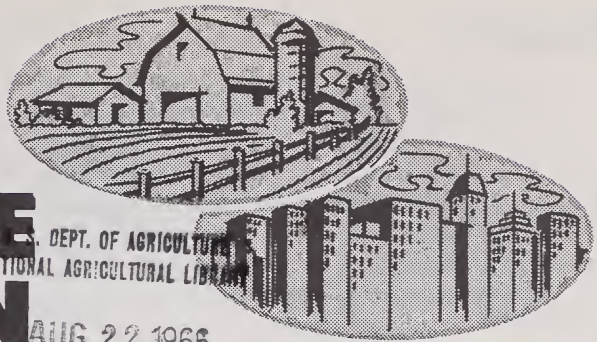
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# DEMAND AND PRICE SITUATION



U.S. DEPT. OF AGRICULTURE  
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AUG 22 1966

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## IN THIS ISSUE

- AGRICULTURAL ECONOMIC SITUATION
- FACTORS AFFECTING DEMAND FOR FARM PRODUCTS
- BALANCE OF PAYMENTS
- CURRENT COMMODITY SITUATION

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AGRICULTURE

Table 1.--Economic factors affecting agriculture

Item	Unit or base period	1965			1966			
		Year	June	Mar.	Apr.	May	June	
Industrial production <u>1/</u> <u>2/</u>	: 1957-59=100	: 143	: 143	: 153	: 154	: 155	: 156	
Final products	: do.	: 142	: 141	: 152	: 153	: 154	: 154	
Consumer goods	: do.	: 140	: 139	: 146	: 146	: 146	: 147	
Autos	: do.	: 183	: 187	: 184	: 181	: 168	: 168	
Equipment, including defense	: do.	: 147	: 145	: 166	: 167	: 170	: 171	
Materials	: do.	: 144	: 144	: 154	: 155	: 156	: 157	
Construction: <u>3/</u> <u>4/</u>	:	:	:	:	:	:	:	
Total outlays	: Mil. dol.	: 71,903	: 71,756	: 78,140	: 76,844	: 74,087	: 73,697	
Public construction	: Mil. dol.	: 21,904	: 21,439	: 23,074	: 22,497	: 22,297	: 22,487	
Private residential	: Mil. dol.	: 26,689	: 27,224	: 27,279	: 27,437	: 26,992	: 26,402	
Housing starts, private only	: Thousands	: 1,505	: 1,566	: 1,569	: 1,502	: 1,295	: 1,288	
Manufacturers' shipments, orders, and inventories: <u>2/</u> <u>3/</u>	:	:	:	:	:	:	:	
Total shipments	: Mil. dol.	: 40,279	: 39,943	: 44,121	: 43,540	: 44,030	: ---	
Durable goods	: Mil. dol.	: 21,020	: 20,652	: 23,238	: 22,708	: 22,961	: ---	
Unfilled orders	: Mil. dol.	: 66,068	: 60,588	: 70,527	: 72,049	: 73,171	: ---	
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 68,015	: 64,625	: 69,648	: 70,346	: 71,032	: ---	
Durable goods	: Mil. dol.	: 42,324	: 39,951	: 43,273	: 43,779	: 44,256	: ---	
Employment and wages: <u>2/</u> <u>6/</u>	:	:	:	:	:	:	:	
Total civilian employment	: Millions	: 72.2	: 72.1	: 73.4	: 73.8	: 73.2	: 74.0	
Nonagricultural	: do.	: 65.6	: 67.4	: 69.1	: 69.3	: 69.2	: 69.8	
Unemployment	: do.	: 3.5	: 3.6	: 2.9	: 2.9	: 3.0	: 3.1	
Workweek in manufacturing	: Hours	: 41.2	: 41.0	: 41.5	: 41.5	: 41.4	: 41.2	
Hourly earnings in manufacturing, unadj.	: Dollars	: 2.61	: 2.61	: 2.68	: 2.70	: 2.70	: 2.70	
Income and spending:	:	:	:	:	:	:	:	
Personal income <u>3/</u> <u>4/</u>	: Bil. dol.	: 535.1	: 532.2	: 569.0	: 570.5	: 573.0	: 576.4	
Consumer credit outstanding <u>1/</u> <u>5/</u>	: Mil. dol.	: 87,884	: 81,717	: 87,059	: 88,184	: 89,092	: ---	
Automobile	: Mil. dol.	: 28,843	: 27,280	: 29,248	: 29,597	: 29,908	: ---	
Total retail sales <u>2/</u> <u>3/</u>	: Mil. dol.	: 23,622	: 23,322	: 25,536	: 24,949	: 24,555	: 24,841	
Durable goods	: Mil. dol.	: 7,810	: 7,665	: 8,649	: 7,939	: 7,532	: 7,832	
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 33,957	: 33,014	: 34,556	: 34,737	: 35,266	: ---	
Prices: <u>6/</u>	:	:	:	:	:	:	:	
Wholesale prices, all commodities	: 1957-59=100	: 102.5	: 102.8	: 105.4	: 105.5	: 105.6	: 105.7	
Commodities other than farm and food	: do.	: 102.5	: 102.5	: 104.0	: 104.3	: 104.7	: 104.9	
Farm products	: do.	: 98.4	: 100.3	: 106.8	: 106.4	: 104.5	: 104.1	
Foods processed	: do.	: 105.1	: 106.1	: 111.5	: 110.6	: 110.5	: 110.5	
Consumer price index, all items	: do.	: 109.9	: 110.1	: 112.0	: 112.5	: 112.6	: ---	
Food	: do.	: 108.8	: 110.1	: 113.9	: 114.0	: 113.5	: ---	
Prices received by farmers <u>7/</u>	: 1910-14=100	: 248	: 254	: 269	: 265	: 263	: 264	
Crops	: do.	: 232	: 241	: 231	: 236	: 239	: 241	
Livestock and products	: do.	: 261	: 265	: 303	: 291	: 284	: 283	
Prices paid, interest, taxes and wage rates <u>7/</u>	: 1910-14=100	: 321	: 323	: 331	: 333	: 333	: 333	
Family living items	: do.	: 306	: 307	: 314	: 314	: 315	: 314	
Production items	: do.	: 276	: 278	: 284	: 283	: 283	: 283	
Parity ratio <u>7/</u>	:	: 77	: 79	: 81	: 80	: 79	: 79	
Farm income and marketings: <u>7/</u>	:	:	:	:	:	:	:	
Volume of farm marketings	: 1957-59=100	: 119	: 105	: 94	: 87	: 90	: 107	
Cash receipts from farm marketings	: Mil. dol.	: 39,187	: 2,892	: 2,969	: 2,764	: 2,760	: 3,100	

Annual data for most of these items for years 1929, 1941, 1947 and 1952-65 appear on page 35 of the May 1966 issue of The Demand and Price Situation.

1/ Federal Reserve Board. 2/ Seasonally adjusted. 3/ U. S. Department of Commerce. 4/ Seasonally adjusted annual rates. 5/ End of year or month. 6/ U. S. Department of Labor. 7/ U. S. Department of Agriculture.



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 T H E D E M A N D A N D P R I C E S I T U A T I O N  
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Approved by the Outlook and Situation Board, August 1, 1966

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SUMMARY

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Farmers continue to benefit from the high level of economic activity permeating the entire economy. This year will likely be one of the best on record with realized net farm income rising about \$1½ billion from the 1965 level of \$14.2 billion. Net farm income in the first half was running at a seasonally adjusted annual rate of over \$16 billion, up 19 percent from the same period last year.

With disposable personal income advancing along with the general level of economic activity, the domestic market for farm products is continuing to expand. Food expenditures in the second quarter were up 7 percent from a year earlier. For 1966 as a whole, expenditures should run 6 to 7 percent above 1965, with higher retail prices accounting for about half of the rise. Per capita consumption in 1966 will probably average slightly above 1965. Domestic demand for feed concentrates is expected to reach a record level in the current feeding year.

Export demand for U. S. farm products has been very strong. In the fiscal year ended June 30, 1966, exports of agricultural products were \$6.7 billion, up 10 percent from 1964-65. Much of the rise was due to very strong demand for feed grains, especially corn and grain sorghums. Demand for wheat, soybeans, and soybean meal was also quite strong.

Crop production prospects as of July 1 pointed to a slightly smaller crop this year, possibly 1 to 2 percent lower. Production of most crops is expected to be below 1965 levels with the exception of corn, rice, some vegetables and fruits, and tobacco. Cotton acreage is down a fourth from the 1965 level as a result of the 1966 acreage diversion program. Total livestock output is expected to expand slightly this year from 1965. However, pork production in the fourth quarter is expected to be significantly higher than early 1966 as indicated by farrowings and farrowing intentions.

Prices received by farmers, at 264 (1910-14=100) in the second quarter of 1966, declined slightly from the first quarter. A 4 percent increase in crop prices was more than offset by a 5 percent decrease in livestock prices. However, the index of all farm products averaged 6 percent above a year earlier in the second quarter; crop prices were down 2 percent, and livestock and livestock products were up 12 percent. By the fourth quarter, expected livestock production increases could bring prices of meat animals down 10 percent from the first quarter level.

The second quarter pace of the economic expansion slowed somewhat from the inflationary first quarter situation. Gross National Product rose \$11 billion to a \$732 billion annual rate, \$6 billion less than the first quarter gain. Nevertheless, the second quarter level was 8.8 percent above a year earlier. Unemployment, at 3.9 percent of the civilian labor force, continued well below the year earlier rate and productive facilities were still operating near capacity. Price pressures continued strong during the second quarter, especially in the nonfarm sector of the economy. The wholesale price index rose one-half percent in the second quarter to 105.6 (1957-59=100), 3.3 percent above a year earlier. Wholesale prices rose  $1\frac{1}{2}$  percent from the fourth quarter of 1965 to the first quarter of 1966. Wholesale farm product prices moved lower during the second quarter after reaching a peak early in the year. Declining prices for farm products and processed foods partially offset continued sharp advances in industrial prices. Industrial prices were up 0.8 percent from the first quarter level and 2.2 percent above the second quarter of 1965.

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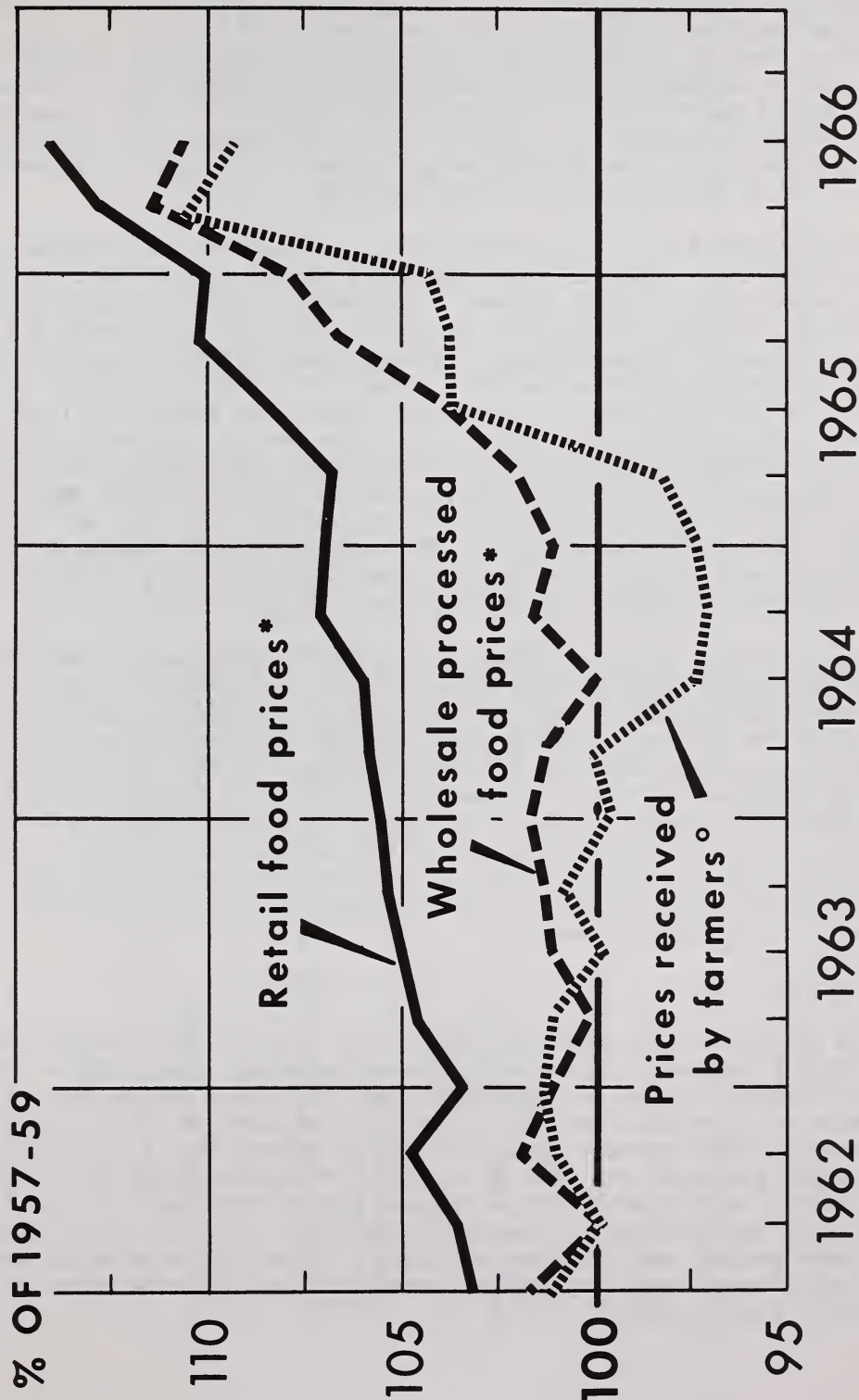
## GENERAL AGRICULTURAL SITUATION

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Even though prices received for farm products declined slightly from the first to the second quarter, they continue to show considerable strength. Second quarter farm product prices averaged nearly 6 percent above the same period a year earlier. Substantially higher livestock and livestock product prices more than offset modest declines in crop prices. By the end of the year, farm product prices are expected to average below current levels.

Livestock and livestock product prices in the second quarter averaged 12 percent higher than in the same period a year earlier. However, prices received in the second quarter were 5 percent below the first quarter as hog and egg

# FOOD PRICES: RETAIL, WHOLESALE, FARM



\* BUREAU OF LABOR STATISTICS DATA. ° ALL FARM COMMODITIES.



prices declined from first quarter peaks. Prices for cattle and calves and poultry peaked in March of this year. In the second quarter of 1966, meat animal prices averaged 14 percent above the same period a year earlier. Poultry and egg prices were up 9 percent and dairy products averaged 10 percent higher. Both the rise in consumer income and high hog prices contributed to higher cattle, calf, and poultry prices despite larger supplies of these commodities. Hog prices, which have been running well above 1965 levels, are expected to decline significantly by the fourth quarter as producers increase marketings as a result of the 10 percent larger spring pig crop.

Prices received for crop products in the second quarter declined 2 percent from the same period a year earlier. Despite a record crop of feed grains and near record wheat crop in 1965, current supplies are averaging below year ago levels. Prices of wheat and soybeans averaged above year ago levels and feed grain prices averaged 3 percent lower. Strong domestic demand augmented by significantly higher exports accounted for much of the price strength for these commodities. Prices received for commercial vegetables during the first half of 1966 were considerably higher than in the same period last year. However, most of this increase was in the first quarter when poor weather reduced production. Harvesting in many summer-crop areas has been late as a result of the cold spring. This, together with the yield-depressing July heat wave, resulted in very high vegetable prices in July. The only major crop showing a significant price decline from a year earlier was potatoes, off about 50 percent due to a 16 percent increase in marketings over the year earlier crop.

Prices received by farmers reached a peak for the year in the first quarter when livestock prices rose to their highest level in 14 years. Despite the expected downtrend in meat animal and poultry prices, livestock and livestock product prices for the year probably will average about 10 percent above 1965. Dairy product prices are expected to continue strong in the latter part of 1966 due to tight supplies relative to demand and the June 30 increase in dairy price supports. The manufacturing milk support price was raised to \$4.00 per 100 pounds, a 50 cent increase, and the milkfat support was set at 68 cents per pound. In the coming months crop prices, particularly grains, are expected to remain relatively strong because of lower production estimates and expected strong domestic and foreign demand.

### Crop Production

Crop production prospects for 1966, as of July 1, were somewhat less favorable than a year ago, according to farmer reports. Production of all crops may be 1 to 2 percent below the high 1965 level but above the average of recent years. However, the August Crop Report will be released on August 10, 1966. Crops planted for 1966 harvest total 306 million acres, down 1.7 million acres from last year, but about the same as in 1964. Prospects range from good to excellent in the very important North Central region. In parts of the Great Plains, lack of rainfall has reduced prospects. In most parts of the South prospects have varied, running from excellent to poor. June rainfall was generally below normal and temperatures remained cool, but rose above normal before the end of the month.



Table 2.---Agricultural prices, marketings and income, 1964 to date

Item	Unit	1964				1965				1966			
		Year	II	III	IV	Year	I	II	III	Year	I	II	III
Prices received by farmers													
Crops	1910-14=100	237	250	250	252	248	267	264					
Livestock and products	1910-14=100	239	244	226	221	232	230	239					
	1910-14=100	236	255	271	279	261	300	286					
Prices paid, interest, taxes and wage rates													
Family living items	1910-14=100	313	322	322	323	321	329	333					
Production items	1910-14=100	300	306	306	307	306	312	314					
	1910-14=100	270	277	277	277	276	282	283					
Parity ratio													
		76	78	78	78	77	81	79					
Volume of farm marketings													
Crops	1957-59=100	118	92	122	162	119	105	95					
Livestock and products	1957-59=100	118	61	126	210	120	98	63					
	1957-59=100	118	115	118	126	118	111	118					
Cash receipts from farm marketings <u>1/</u>													
Crops	Bil. dol.	36.9	7.8	10.0	13.3	39.2	9.4	8.7					
Livestock and products	Bil. dol.	17.1	2.6	4.4	7.1	17.3	3.5	2.7					
	Bil. dol.	19.8	5.2	5.6	6.2	21.9	6.0	6.0					
Farmers' realized net income <u>2/</u>													
	Bil. dol.	12.9	14.6	14.6	14.7	14.2	16.5	16.2					

1/ Seasonally adjusted annual rates are: 1965-II, \$39.7 billion; III, \$39.7 billion; and IV, \$40.0 billion. 1966-I, \$42.2 billion; II, \$42.2 billion.

2/ Seasonally adjusted annual rates.

U. S. Department of Agriculture.

Cotton acreage this year is the smallest planted in nearly 100 years. July indications show nearly one-fourth fewer acres than in 1965. This sharp decline results from heavy grower participation in the 1966 acreage diversion program. About two-thirds of the decline in cotton acreage is expected to be offset by increases in soybean acreage which is estimated at about 7 percent above last year. Acres for harvest of all tobacco are estimated at about 1 percent above 1965. Acreage changes for other crops will, for the most part, be minor.

Production of both wheat and feed grains are expected to be slightly below last year. Wheat production, as of July 1, was estimated at 7 percent below 1965. Harvested acreage is expected to total slightly less than last year, although most of the decline in production is due to the estimated decline in yield. Indicated corn production is somewhat higher due to larger planted acreage, as yields are expected to be lower than last year. However, production of oats and barley are expected to be down from 1965 levels. Planted acreage of sorghum is down 5 percent from last year.

Output of fresh vegetables is expected to be down due to unfavorable weather. Indicated acreage planted for processed vegetables is considerably above last year. July 1 conditions indicated that the current deciduous fruit crop will be slightly below last year. Prospects for the 1966-67 citrus crops are generally favorable.

#### Livestock and Products Output

Aggregate livestock output is expected to expand slightly this year over 1965. This is expected to result from increases in beef and veal, turkey, and chicken, partially offset by a substantial contraction in total milk output. Pork production is expected to increase strongly in the fourth quarter of 1966 as producers market the larger December-May pig crop, but the total volume for the year will about equal that in 1965. Total red meat supplies are expected to slightly exceed 1965 levels for the year. Egg production declined in the first half of the year compared with a year earlier although in the second half of 1966 supplies are expected to exceed year ago levels.

#### Farm Income

Farmers continue to benefit from the high level of income generated throughout the economy. Realized gross farm income during the first half of 1966 rose to \$48.5 billion, seasonally adjusted annual rate, as both receipts from marketings and Government payments to farmers were higher. Cash receipts from marketings totaled \$18.1 billion during the first half, up 14 percent from the same period a year earlier. This amounts to \$42.2 billion on a seasonally adjusted annual rate basis.

Marketings of most farm products have been higher during the first half compared with the same period last year. However, marketings of hogs, eggs and milk declined. Prices in the first half of 1966 were higher for all major commodities except corn, hay and potatoes.



Although total livestock production will likely be above a year ago in the second half, price and income prospects still remain very strong. Dairy production may continue at relatively low levels the rest of the year, but with higher milk and milkfat prices, income from dairying may average 10 percent above last year. Supply and demand prospects point to strong prices for crops throughout the remainder of the year. Consequently, farm income prospects continue to be bright for the year as a whole. Realized net income may run \$1½ billion above the \$14.2 billion level in 1965.

Production expenses so far this year are running well above the first half of 1965. The January-June 1966 annual rate was \$32.2 billion, seasonally adjusted, 6 percent above the first half 1965 rate of \$30.4 billion. During the first half of 1966 prices paid for production items, interest, taxes, and farm wage rates averaged 4 percent above a year earlier. Prices paid by farmers for farm originating inputs--feed, seed, and feeder cattle, etc.--are closely related to prices received by farmers. Prices paid for feeder livestock have been significantly above year-ago levels, but some declines have occurred in recent months. Prices paid for feed, motor vehicles, and machinery have been running above a year earlier. Inputs of feeder livestock, fertilizer, and farm machinery and equipment are estimated above a year earlier. Interest charges, due to increased borrowing, were up more than 12 percent, and wages and taxes were about 7 and 5 percent higher, respectively.

According to Farm and Industrial Equipment Institute reports, wheel type tractor sales for farm use in the first 5 months of 1966 were estimated at 21 percent above the same period a year earlier. The largest increase in farm tractor sales was in the West North Central States where sales during January-May spurted 39 percent over the same period a year earlier. The principal farm machines showing sizable gains were self-propelled combines, corn picker heads for combines, and corn pickers.

The long term out-migration of farm labor continued in the first half of this year. Family labor in June was down 9 percent from a year ago, while hired farm labor in June was down 11 percent. The decline in number of hired workers in the first half compared with a year earlier was sufficient to lower the farm wage bill by about 2 percent, despite the rise in wage rates.

The demand for purchased inputs is expected to continue strong in the second half of the year. Considerable improvement in farm income together with new technologies point to a favorable outlook for industries which supply farmers' purchased inputs.

#### Farm Real Estate

Farm real estate values as of March 1 climbed to a new level of \$171.1 billion, over 7 percent above March 1965. Per acre values rose to \$157, up 35 percent from 1960. Farm real estate market surveys indicate a large increase in the number of people looking for farmland, but the number of farms for sale appear to have declined. This situation has created pressures in the farm real estate market. Credit availability has tightened similar to that



in the rest of the economy. Interest rates on farm mortgages have risen, although less than rates on commercial loans. However, farmland purchasers are generally less dependent on commercial credit sources than are buyers of residential property. Seller-financing, by installment land contracts, is widely used in the farm real estate market, particularly in periods of tight commercial credit. Current estimates show about 40 percent of farm sales are seller financed.

Nonagricultural land uses--suburban, industrial, and highway--continued to increase in importance in the land market over the past year. Some observers attribute much of the rise in spread between value of farm earnings and market prices for farmland as due to increases in nonagricultural land uses. In certain areas, prices of nonagricultural land have risen as much as 50 percent above values for agricultural use.

#### Domestic Demand

Food expenditures in the second quarter of 1966 totaled \$91 billion, seasonally adjusted annual rate. This was up \$1 billion from the first quarter and \$6 billion from the second quarter of 1965. In 1965, \$85 billion was spent for food, not including \$13 billion spent for alcoholic beverages. Food expenditures in 1965 are expected to total 6 to 7 percent more than in 1965, with higher retail prices accounting for over half the rise. Disposable personal income is expected to advance at about the same rate as food expenditures this year so the percentage of income spent for food likely will be about the same as the 18.2 percent in 1965.

Retail food prices in the second quarter increased 1 percent over the first quarter and 5 percent above a year earlier. Price rises were particularly strong for fresh fruit, dairy products, and vegetable oils; meat prices stabilized. Average retail food prices probably continued to advance through July, due mostly to seasonal factors. Prices are expected to move lower in coming months and may average about 3 percent above those in last half of 1965.

Per capita food consumption this year likely will average slightly above 1965. Per capita meat consumption is expected to total about the same as in 1965; a 1-pound decline for pork is expected to be about offset by a 1-pound increase for beef. Reduced meat consumption during the first half of the year is expected to be about offset by an increase in the second half. Poultry meat consumption is expected to climb again this year, but consumption of dairy products is down. Other increases include citrus fruits, potatoes, and dry edible beans. However, per capita consumption of butter, lard, melons, and canned fruits and vegetables is expected to decline.

Feed concentrates fed to livestock in the 1965-66 feed year are expected to climb to a record of nearly 159 million tons, 7 percent above a year earlier. Although numbers of grain consuming animal units fed increased less than 1 percent for the year, product-feed price ratios rose significantly and encouraged producers to feed larger quantities per unit of output. Feed grains fed to

livestock in the current marketing year are expected to be about 8 percent above that fed in 1964-65. High protein feed consumption is estimated at 6 percent above the previous season, despite the highest prices since 1951-52. Demand for feed concentrates is expected to continue strong in feed year 1966-67, but probably not as much as in the current year. Pork and milk production are expected to recover from low levels, but livestock prices relative to feed prices will probably be less favorable than in 1965-66.

Domestic mill use of cotton in 1965-66 crop year totaled about  $9\frac{1}{2}$  million bales, up 2 percent from the previous year. Domestic utilization for the coming crop year, 1966-67, appears favorable due to continued vigorous economic activity and more competitive cotton prices relative to man-made fiber prices.

Domestic mill use of apparel wool in 1966 is expected to reach 290 to 295 million pounds, scoured basis, up about 7 percent from 1965. Prices received for shorn wool in the first half of this year averaged about 9 percent above the same period a year earlier, reflecting increased mill activity and higher world wool prices.

U. S. smokers puffed on a record 534 billion cigarettes in the year ended June 30, 1966, an estimated 2 billion more than a year earlier. Consumption of the other tobacco products showed declines compared with 1964-65.

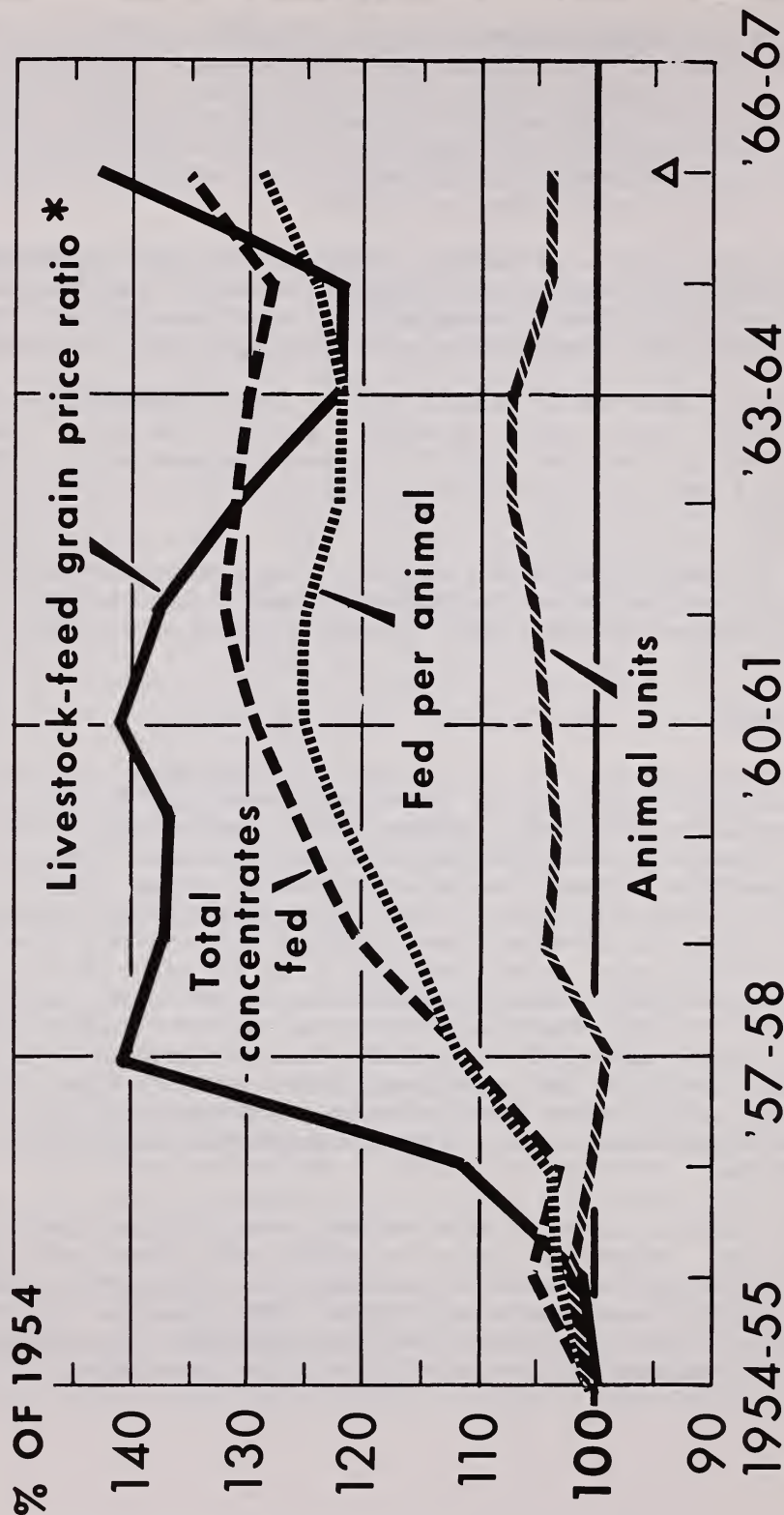
#### Foreign Demand

Foreign demand for U. S. farm products continued very strong during the first 6 months of 1966. In the fiscal year ended June 30, 1966, exports of agricultural products totaled \$6.7 billion, up 10 percent from fiscal 1964-65. Exports of grains and grain preparations, which account for about half of total U. S. agricultural exports, increased 25 percent during 1965-66. Much of the increase consisted of a surge in feed grain exports, especially corn and grain sorghums. The value of these exports reached \$1.4 billion, up over 40 percent from the previous year. Japan continued to be the major importer of feed grains from the United States although demand in other countries, particularly in the EEC, was also strong. Strong demand for feed grains throughout the world is primarily due to rapidly rising incomes which have brought an increase in demand for livestock products and, consequently, feed grains. Wheat and wheat flour exports were up 13 percent from last year. Increased food aid to India and a continued strong dollar demand in Japan contributed significantly to the rise in wheat exports.

Oilseed and oilseed product exports rose slightly less than 10 percent from last year. Substantial gains in soybean and soybean meal exports were partially offset by a decline in cottonseed and soybean oil shipments. Cotton exports in 1965-66 declined over 30 percent from 1964-65. With more competitive U. S. prices, cotton exports in 1966-67 are expected to rebound sharply due to increased consumption by foreign mills, and some rebuilding of cotton stocks abroad.



# LIVESTOCK-FEED PRICE COMPARISON, AND FEED CONSUMPTION



YEAR BEGINNING OCTOBER. \* BASED ON PRICES RECEIVED BY FARMERS FOR LIVESTOCK AND LIVESTOCK PRODUCTS, AND FEED GRAINS. Δ PRELIMINARY; BASED ON JULY 1966 INDICATIONS.



Table 3.--U. S. agricultural exports, value of major commodities  
fiscal years, 1964-65 and 1965-66

Commodity	July-June		Percentage change
	1964-65	1965-66 <u>1/</u>	
	<u>Mil. dol.</u>	<u>Mil. dol.</u>	<u>Percent</u>
Cotton, excluding linters.....:	584	386	-33.9
Dairy products.....:	216	174	-19.4
Feed grains, excluding products...:	940	1,351	43.7
Fruits and preparations.....:	289	327	13.1
Soybeans.....:	598	734	22.7
Tobacco, unmanufactured.....:	395	395	0
Vegetables and preparations.....:	154	170	10.4
Wheat and flour.....:	1,240	1,403	13.1
Other.....:	1,681	1,670	-.7
Total exports.....:	6,097	6,681	9.6

1/ Preliminary.

U. S. Department of Agriculture.

Exports of animals and animal products fell slightly during 1965-66. Declines in exports of dairy products, animal fats, oils, and greases more than offset a 39 percent rise in exports of hides and skins to \$139 million as well as higher exports of meats and meat products, and poultry products. Foreign demand for fruits, vegetables, and preparations increased further in 1965-66.

### Carryover Stocks

Carryover stocks of wheat and feed grains into 1966-67 are estimated to be well below year ago levels. Increased exports of grains, both commercial and aid shipments have reduced stocks sharply. The July 1, 1966 carryover of wheat was estimated at 536 million bushels compared with 818 million bushels a year earlier. Current wheat production is forecast about 7 percent below last year, but domestic use is expected to be down as a result of higher prices and reduced feeding and exports may be lower. Heavy utilization of the 1965 feed grain crop has reduced July 1 stocks to 73½ million tons, nearly 8 percent below a year earlier. July 1, 1966 stocks of soybeans were 134 million bushels, up 2 percent from a year earlier. Soybean crushings and exports this summer are expected to decline seasonally from recent rates leaving carryover stocks on September 1, 1966, of around the 30 million bushels of a year earlier. Carryover of cotton on August 1, 1966 is estimated at 16.8 million bales, 2½ million bales above last year. This record carryover of cotton resulted from a large 1965 crop together with a sharp decline in exports.

Table 4.--Stocks of grains, July 1, 1966 with comparisons

Grain and position	July 1, 1964	July 1 1965	July 1, 1966
	<u>Mil. bu.</u>	<u>Mil. bu.</u>	<u>Mil. bu.</u>
WHEAT			
On farms <u>1/</u>	75.5	132.9	131.3
Off farms <u>2/</u>	825.7	684.7	404.7
Total*	901.2	817.7	536.0
CORN			
On farms <u>1/</u>	1,524.4	1,283.4	1,346.8
Off farms <u>2/</u>	862.8	650.3	467.6
Total*	2,387.3	1,933.8	1,814.3
OATS			
On farms <u>1/</u>	252.1	219.9	248.2
Off farms <u>2/</u>	63.3	62.8	74.7
Total*	315.4	282.7	322.9
BARLEY			
On farms <u>1/</u>	60.9	40.7	49.2
Off farms <u>2/</u>	73.0	61.1	58.8
Total*	133.9	101.8	108.0
GRAIN SORGHUM			
On farms <u>1/</u>	63.8	63.2	72.7
Off farms <u>2/</u>	651.8	595.7	461.5
Total*	715.6	658.8	534.3
SOYBEANS			
On farms <u>1/</u>	72.7	23.0	19.3
Off farms <u>2/</u>	98.2	108.5	114.6
Total*	171.0	131.5	133.9

1/ Estimates of the Crop Reporting Board.

2/ Including grain owned by Commodity Credit Corporation.

\* Totals from unrounded data.

Table 5.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	Unit	1965				1966			
		Year	II	III	IV	I	I	II	I/
		1965							
Gross National Product	: Bil. dol. :	681.2	672.9	686.5	704.4	721.2		732.0	
Personal income	: Bil. dol. :	535.1	527.6	541.9	552.8	564.6		573.3	
Disposable personal income <sup>2/</sup>	: Bil. dol. :	469.1	461.0	476.2	486.1	495.1		499.7	
Personal consumption expenditures	: Bil. dol. :	431.5	426.8	435.0	445.2	455.6		458.9	
Durable	: Bil. dol. :	66.1	64.4	66.7	68.0	70.3		66.8	
Nondurable	: Bil. dol. :	190.6	189.4	191.4	197.0	201.9		204.7	
Services	: Bil. dol. :	174.8	173.0	176.9	180.2	183.4		187.4	
Personal saving	: Bil. dol. :	25.7	22.4	29.0	28.5	26.9		27.6	
Net government receipts	: Bil. dol. :	139.4	140.5	136.7	142.6	149.7		---	
Government purchases	: Bil. dol. :	136.2	134.3	137.7	141.2	145.0		149.4	
Deficit or surplus (on income and product account)	: Bil. dol. :	3.2	6.1	- 1.0	1.4	4.7		---	
Gross private domestic investment	: Bil. dol. :	106.6	103.7	106.7	111.9	114.5		118.4	
Fixed investment	: Bil. dol. :	97.5	96.0	98.0	101.5	105.6		106.4	
Change in business inventories	: Bil. dol. :	9.1	7.6	8.7	10.4	8.9		12.0	
Expenditures for plant and equipment	: Bil. dol. :	51.96	50.35	52.75	55.35	58.00		59.60	
Corporate profits (before taxes)	: Bil. dol. :	75.7	74.5	75.0	78.7	82.7		---	
Net exports of goods and services	: Bil. dol. :	7.0	8.2	7.1	6.1	6.0		5.3	
Balance of payments (on liquidity basis) <sup>4/</sup>	: Mil. dol. :	-1,355	904	-2,136	-1,400	-2,252		---	
Total civilian employment <sup>5/</sup>	: Millions :	72.2	71.9	72.4	73.0	73.6		73.7	
GNP implicit price deflator	: 1958=100 :	110.9	110.7	111.0	111.6	112.6		113.6	
Per capita disposable personal income (1958 prices)	: Dollars :	2,214	2,181	2,241	2,270	2,287		2,277	

<sup>1/</sup> Preliminary. <sup>2/</sup> Excludes interest paid by consumers and net personal transfers to foreigners.

<sup>3/</sup> Estimates based on anticipated capital expenditures as reported by business. <sup>4/</sup> Equals changes in liquid liabilities to foreign official holders, other foreign holders, and change in official reserve assets. <sup>5/</sup> U. S. Department of Labor.

Departments of Commerce, Agriculture, and Securities and Exchange Commission.



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FACTORS AFFECTING DEMAND  
FOR FARM PRODUCTS

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The economic boom extended further during the second quarter of 1966 although the rate of increase slowed appreciably from the exceptional rates of the past few quarters. However, even in comparison with earlier periods during the current expansion, the second quarter gain was still impressive. The most comprehensive measure of aggregate economic activity, the Gross National Product, rose \$11 billion to a \$732 billion annual rate in the second quarter. The average quarterly rise between mid-1965 and the first quarter of 1966 was in excess of \$16 billion. Nevertheless, some weaknesses developed in specific sectors of the economy during the second quarter but upward price pressures continued strong. Expenditures for durable goods faltered, taking some of the zip out of consumer demand and residential construction activity slowed apparently under the influence of stringent credit conditions. Most of the stimulus to economic activity in the second quarter came from rising expenditures for new plant and equipment, increased defense outlays, and a sharp rise in inventory investment. Final product prices continued to advance sharply in the second quarter. The price series used to deflate Gross National Product rose 0.9 percent to 113.6 (1958=100). Thus, physical output rose less than \$4 billion in the second quarter, the smallest quarterly rise since the fourth quarter of 1964. During the past 5 years the deflator rose an average of 0.4 percent per quarter.

Consumer Income and Spending

Total consumer income rose \$8.7 billion or  $1\frac{1}{2}$  percent in the second quarter to a \$573.3 billion annual rate. The second quarter rise was less than gains recorded in the past few quarters, but comparable to advances earlier in the expansion. The slowdown largely reflects the small rise in civilian employment and slight decline in hours worked. The unemployment rate, at 3.9 percent of the civilian labor force after seasonal adjustment, rose slightly from the first quarter but was still substantially below a year earlier. Private wage and salary disbursements, the largest component of personal income and the most sensitive to employment changes, rose \$5.4 billion in the second quarter after surging ahead \$7.4 billion in the first quarter. The slower rise in private wage and salary payments occurred early in the second quarter. The June increase was about equal to the average monthly rise during the first quarter of 1966. Government wage and salary payments continued to rise sharply under the impact of the manpower buildup in Vietnam. Most nonwage components of personal income rose in line with advances recorded in recent quarters. However, farm proprietors' income declined slightly, and Government transfer payments to individuals and dividend payments leveled. Medicare benefits, which began on July 1, 1966, will substantially increase Government transfer payments to individuals in the last half of the year.

A little less than half of the rise in personal income was absorbed by higher personal income tax payments. Consumer disposable income--personal income after taxes--rose \$4.6 billion to a \$499.7 billion annual rate in the second quarter. The second quarter rise was the smallest rise since the second quarter of 1963. The very large increase in personal taxes reflected final settlements on 1965 income and the recent step-up in withholding rates. In coming quarters personal taxes will probably not rise as much as in the second quarter. Consumer buying power--disposable income corrected for price changes in consumer goods and services--declined in the second quarter due to the combined effect of the large rise in tax payments, higher prices, and the slower rise in income before taxes. Consumer buying power had not declined since the fourth quarter of 1960.

Table 6.--Percent change from previous quarter in selected measures of consumer income

Item	1965				1966	
	I	II	III	IV	I	II
Total consumer income	2.1	1.9	2.7	2.0	2.1	1.5
Total consumer disposable income	1.5	1.7	3.3	2.1	1.9	.9
Total consumer buying power	1.2	1.2	3.1	1.6	1.0	-.2

Consumer demand in the second quarter reflected slower income growth as well as the high rate of expenditures since mid-1965. Expenditures for goods and services rose only \$3.3 billion to a \$458.9 billion annual rate. Purchases rose over \$10 billion per quarter in the previous two quarters. The slower rise was due almost entirely to a decline in durable goods purchases, especially automobiles, and a slowdown in the rapid rise in nondurable spending. Total expenditures for durables declined \$3.5 billion to \$66.8 billion as dealers' sales of new cars fell from an annual rate of 9.1 million units (seasonally adjusted) in January-March to 7.9 million units in April-June. Sales of non-durable goods rose \$2.8 billion in the second quarter to a \$204.7 billion annual rate. The average quarterly rise in the previous four quarters was more than \$4 billion. Expenditures for services continued to rise sharply.

Price increases played a major role in increased expenditures for all types of consumer goods and services. After correcting for price increases, consumer expenditures, like consumer disposable income, declined slightly. The decline in the quantity of goods and services consumed, which has an important bearing on output and employment was also reflected in production



of consumer goods. The Federal Reserve Board's index of consumer goods output rose slightly in the second quarter averaging 146.1 (1957-59=100). A decline in production of automobiles was the major cause of the small increase. Automobile production was adjusted as declining sales created considerable unplanned inventory investment. Production of most other goods continued to rise.

### Government Demand

The Government sector continued to be a major expansionary force during the second quarter of 1966. Purchases of goods and services by all levels of Government, the only type of government spending directly affecting the Gross National Product, rose \$4.4 billion to \$149.4 billion (annual rate). The second quarter gain continued, the rapid rise begun in the middle of 1965 when Vietnam spending was stepped up. Expenditures by State and local Governments accounted for approximately 40 percent of the second quarter rise; the Federal Government accounted for the rest. Federal purchases, at \$74.6 billion in the second quarter, were \$9.0 billion or 14 percent above April-June 1965. In last year's second quarter, Federal spending for goods and services was below the second quarter of 1964. Most of the rapid rise in the last year occurred in national defense purchases as military procurement for Vietnam continued rising sharply. Purchases of goods and services for civilian purposes were up only moderately. Production of defense equipment has risen even more sharply than total Federal defense spending. The Federal Reserve Board's index of defense equipment production rose sharply between the second quarter of 1965 and the second quarter of 1966. Production rose very little between the second quarter of 1964 and the second quarter of 1965.

### Fixed Investment

Private fixed investment in structures and equipment rose \$1.3 billion in the second quarter to a \$78.3 billion annual rate. The second quarter gain was less than the exceptional \$3.1 billion gain in the first quarter. The smaller advance was due entirely to a slight decline in nonresidential construction activity which had been expanding rapidly for several quarters. Expenditures for equipment continued rising sharply.

Investment spending is scheduled to increase further in coming quarters. According to the latest OBE-SEC survey conducted in late April and May, businessmen are still planning to expand their outlays for new plant and equipment during the remainder of 1966, although the rate of increase is expected to moderate slightly. Total expenditures for new facilities and capital equipment are now programmed at \$60.78 <sup>1</sup>/<sub>billion</sub> or 17.0 percent above the 1965 level. The previous survey, taken in late January and February, indicated an increase in outlays of 15.9 percent.

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<sup>1</sup>/ This figure does not agree with the fixed investment component of Gross National Product, principally because the latter includes agricultural investment and certain equipment and construction outlays charged to current expense.



Table 7.--Percentage change in plant and equipment expenditures, 1964 to 1966

Item	Actual 1964 to 1965 Percent	Anticipated 1965 to 1966 as reported in	
		February 1966 Percent	May 1966 Percent
All industries .....	15.7	15.9	17.0
Manufacturing <sup>1/</sup> .....	20.8	19.1	20.4
Durable goods.....	20.9	18.4	20.9
Primary metals.....	20.0	9.8	8.0
Machinery.....	32.6	67.4	78.7
Motor vehicles and parts.....	42.2	7.1	2.7
Transportation equipment, except motor vehicles.....	-9.2	45.7	65.2
Stone, clay, and glass.....	14.9	11.3	6.6
Nondurable goods.....	20.7	19.9	19.8
Food and beverage.....	16.5	18.5	16.0
Textile.....	29.8	37.1	29.7
Paper.....	20.0	28.6	29.9
Chemical.....	31.7	15.7	14.3
Petroleum.....	13.7	15.4	17.5
Nonmanufacturing.....	11.8	13.4	14.3
Mining.....	9.3	16.3	9.2
Railroad.....	23.1	5.5	18.2
Transportation, other than rail.....	18.4	12.0	24.3
Public utilities.....	11.7	15.8	15.1
Communications.....	15.0)	13.3	12.4
Commercial and other.....	8.8)		

<sup>1/</sup> Includes industries not shown separately.

U. S. Department of Commerce and Securities and Exchange Commission.

Nevertheless, important changes occurred in the industry mix. Most industries scaled down their estimates for 1966 from the last survey. However, these reductions were more than offset by substantial upward revisions in the capital budgets of transportation companies and producers of nonelectrical machinery and nonautomotive transportation equipment.

### Residential Construction

Outlays for private residential structures declined  $\$ \frac{1}{2}$  billion to \$28.1 billion (annual rate) in the second quarter after rising \$1.0 billion in the previous quarter. The second quarter level was unchanged from the year earlier level. The recent decline in homebuilding activity reflects the extremely tight supply of mortgage funds, which were in generally ample supply until late 1965. Since that time rates paid by commercial banks on certificates of deposit have become more attractive than rates paid by savings institutions such as savings and loan associations and mutual savings banks. Consequently, it became very difficult for savings institutions, which supply the bulk of mortgage funds, to attract new deposits and retain existing accounts. The adverse effect on housing starts and building permits, two leading indicators of future homebuilding activity, is already evident. Housing starts were at a seasonally adjusted annual rate of 1.58 million units in the fourth quarter of last year. By the second quarter of 1966 starts had fallen 14 percent to 1.36 million units.

In late June, the Federal Reserve Board raised reserve requirements on time deposits. In addition, the Federal Home Loan Bank Board in effect removed restrictions on rates savings and loan institutions could pay on their deposits. On July 20, the Federal Reserve Board took further action to diminish commercial banks' ability to attract funds from other savings institutions by lowering maximum rates that could be paid on certain types of certificates of deposit. The types affected were those most attractive to consumers and operators of small businesses.

### Prices

Despite the slowdown in economic growth in the second quarter, unemployment remained low, productive facilities continued to be utilized at a high rate, and upward pressures on prices continued strong. Although the wholesale price index in the second quarter of 1966 averaged only  $\frac{1}{2}$  percent higher than the first quarter level of 105.6 (1957-59=100), significant changes occurred in individual commodity groups. Farm product prices declined 1.1 percent to 105.0 (1957-59=100) and processed food prices fell 0.6 percent to 110.5. Price declines for these commodity groups were more than offset by a continued rise in industrial commodity prices. Prices of industrial commodities averaged 104.6 percent of the 1957-59 average, 0.8 percent above the first quarter of 1966 and 2.2 percent above a year earlier. Industrial commodity prices were relatively stable until the middle of 1965.

As noted previously, consumer prices also continued the accelerated up-trend of recent months during the second quarter. Consumer price increases will undoubtedly have an important effect on wage negotiations during the rest



of 1966 and 1967. Wage settlements in excess of the Administration's guidepost for noninflationary increases could have a significant effect on labor costs per unit of output. Labor costs per unit of output have been relatively stable during most of the current expansion and contributed to the price stability up until recently.

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## BALANCE OF PAYMENTS

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International transactions of the United States during the first quarter of 1966 resulted in a balance of payments deficit--liquidity basis--of \$2.3 billion (seasonally adjusted annual rate). Major transactions affecting the balance of payments are presented in table 8. The first quarter 1966 deficit reflected a decline in U.S. official reserve assets of \$1.7 billion and an increase in U.S. liquid liabilities to all foreigners of \$0.6 billion.

The United States continued to have a favorable balance on goods and services transactions in the first quarter although the level was down slightly from the previous quarter. A rise in investment income from abroad and a small gain in merchandise exports were offset by the gain in merchandise imports and a moderate rise in military expenditures abroad. According to preliminary estimates the balance on goods and services declined \$0.7 billion in the second quarter to \$5.3 billion (annual rate). Exports registered a moderate increase but the rise was again offset by higher imports. Imports as a percentage of Gross National Product were at a high level in the second quarter, having moved from 4.8 percent in the second quarter of 1965 to 5.1 percent in the second quarter of 1966.

U. S. Government grants to foreigners (excluding military) rose sharply in the first quarter of 1966. Much of the rise reflected increased rupee grants to India. In the second quarter grants declined to a level more in line with previous quarters. U. S. Government assets (excluding official reserve assets) increased further in the first quarter. However, the increase was less than in the fourth quarter of 1965.

Private capital outflows in the first quarter of 1966 were at about the same level as in the fourth quarter of 1965 but substantially below the first quarter of 1965. A decline in first quarter capital outflow for direct investments abroad was more than offset by an unusually large rise in purchases of new foreign securities offered in the United States. Capital outflows for direct investments abroad continued to be influenced by the President's program to improve the balance of payments. Capital outlays abroad are scheduled to rise sharply this year but many firms are arranging to finance these expenditures by borrowing abroad. Borrowing abroad by U. S. corporations reduces the need for U. S. funds and, thus, does not adversely affect the U. S. balance of payments.



Table 8.--International transactions of the United States,  
1964-66 (Excluding military grant-aid)

Item	(Billions of dollars, seasonally adjusted annual rates)											
	1964			1965			1966					
	year	I	II	III	IV	year	I	II	III	IV	year	I
Exports of goods and services.....	37.0	35.1	40.5	40.1	40.3	39.0	41.7	42.3				
Payments to foreigners.....	37.0	35.1	40.5	40.1	40.3	39.0	41.7	42.3				
Imports of goods and services.....	28.5	28.7	32.3	33.0	34.2	32.0	35.6	37.0				
Transfers to foreigners, net.....	2.8	2.6	3.1	2.8	2.5	2.8	3.4	2.9				
Personal.....	.6	.6	.6	.6	.6	.6	.6	.7				
Government.....	2.2	2.0	2.5	2.2	1.9	2.2	2.8	2.2				
Net Foreign Investment.....	5.7	3.8	5.1	4.2	3.5	4.2	2.6	2.4				
Change in U.S. Government asset, net; increase (+).....	1.7	1.5	1.9	1.1	1.9	1.6	1.3	n.a.				
Change in U.S. private assets, net; increase (+).....	6.5	6.4	1.4	3.3	3.6	3.7	3.6	n.a.				
Change in nonliquid assets in the U.S., net; increase (-).....	-.7	-1.3	.5	1.0	-.9	-.2	-.9	n.a.				
Errors and omissions, net.....	1.0	0	.4	1.0	.3	.4	1.0	n.a.				
Balance of Payments, liquidity basis.....	-2.8	-2.8	.9	-2.1	-1.4	-1.4	-2.3	n.a.				
Change in U.S. official reserve assets, net; increase (+).....	-.2	-3.4	-.3	-.2	-1.1	-1.2	-1.7	n.a.				
Change in liquid liabilities to all foreigners, net; increase (-).....	-2.6	.6	1.2	-1.9	-.3	-.1	-.6	n.a.				

p. - Preliminary.

n.a. - Not available.

U.S. Department of Commerce.

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## CURRENT COMMODITY SITUATION

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## LIVESTOCK AND LIVESTOCK PRODUCTS

Meat Animals

Red meat production in Federally inspected plants was up less than 1 percent in the first half of 1966. Pork and veal production each were down but were more than offset by an increase in beef and lamb production. However, this situation will change somewhat in the second half of 1966. Beef production likely will continue larger than a year ago but the increase over 1965 probably will narrow toward the end of the year. Pork production, on the other hand, which was down substantially from year earlier levels in the first half of the year, will rise considerably from 1965 levels during the fall months. Second half lamb production is expected to be smaller than a year earlier.

There were 8.3 million head of cattle and calves on feed on July 1--11 percent more than a year earlier. All regions of the country showed increases over a year earlier. Cattle feeders stated intentions to market 11 percent more cattle out of feedlots during the summer months than in these months of 1965.

Fed beef production during the summer and early fall months likely will be substantially larger than in these months of 1965. Beef production will be up more than the number of head marketed because fed cattle weights are expected to average heavier.

Choice steers at Chicago averaged \$26.74 per 100 pounds during April-June, the same as a year earlier. However, because marketings increased throughout the quarter, prices declined from an average of \$28 in April to \$25.50 in June. Prices in late July were near the June average. Fed cattle prices are expected to continue around current levels for the next several months and may average moderately below the year earlier July-September average of \$27.06.

Hog farmers increased the size of the December 1965-May 1966 pig crop by 10 percent. Percentage increases outside of the Corn Belt were larger than those in the Corn Belt. Since hogs born during the first half of the year supply the bulk of the slaughter hogs in the second half of the year, hog slaughter is expected to rise above year-earlier levels this summer and then continue above throughout the rest of the year with slaughter up substantially late in the year.

Barrows and gilts at 8-markets averaged \$27.93 in January and this is likely to be the peak price for the year. Prices dropped to an early spring low of \$22.26 in April but then rose to \$24.88 in July (3-week average). However, a rather continuous decline is expected during the second half of 1966 and by late this year hog prices will be substantially below the very high levels in the fall of 1965.



Hog producers stated intentions on June 1 to step-up farrowings in the second half of this year also. Thus, the expansion is expected to continue through the remaining months of this year and probably on into the first half of 1967. In this event, hog slaughter rates will be above year-earlier levels throughout 1967.

Lamb prices to farmers rose to \$26.60 in February, almost \$5 above a year earlier. However, prices declined this spring and by July averaged \$22.10 or a \$1.20 below a year earlier. Lamb prices declined because slaughter supplies increased in the spring and average live weights of lambs slaughtered rose to record highs. In addition, fed beef supplies were up substantially this spring.

Lamb slaughter probably will average less than a year ago in the second half of 1965. Weights are expected to decline to 1965 levels. Thus, lamb prices in the second half of 1965 likely will average around year-earlier levels when prices received by farmers for lambs during July-December averaged \$22.80 per 100 pounds, live weight.

### Dairy Products

USDA increased dairy price supports effective June 30 for manufacturing milk with 3.72 percent fat content to \$4 per 100 pounds, an increase of 50 cents. The support for milkfat in farm-separated cream is set at 68 cents per pound. The new levels are 89 percent of the June parity equivalent price for manufacturing milk, and 82 percent of the parity price for milkfat. The support increase is effective through March 1967. Also, USDA set the minimum basic formula price for calculating Class I prices (milk for bottling) in 67 Federal milk order markets at \$4 per 100 pounds (3.5 percent fat basis). In 6 North-eastern orders, where Class I prices are not based on manufacturing milk values, Class I prices were increased about 22 cents per 100 pounds over specified formulas.

In connection with this action, the support buying prices were raised to 67 $\frac{1}{4}$  cents per pound for grade A butter at New York and 43-3/4 cents per pound for Cheddar cheese, bring them about to June market levels. USDA set the non-fat dry milk purchase price at 19.6 cents per pound, an increase of 3 cents. USDA is expected to remove sizable quantities of nonfat dry milk at the higher purchase price in second half 1966. However, the total for the calendar year still may be only about half the 1,100 million pounds removed in 1965. No deliveries of butter and cheese to USDA under the support program are expected during the rest of 1966.

The downtrend in milk production continued in second quarter of 1966 with output 3.5 percent below a year earlier. Heavy culling continued in response to high cattle prices, but output per cow gained 2 percent from second quarter 1965. Milk output was closer to a year earlier in the second quarter than in the first quarter because of the increased output per cow. Farmers are stepping up grain feeding in response to improved milk-feed price relationships. The decline in milk output from year-earlier levels is expected to lessen in late summer and early fall. For the year, current indications are for milk output about 2-3 percent below the 1965 output of 125.1 billion.



Farmers received about 11 percent higher milk prices during second quarter than a year earlier. All milk sold wholesale averaged \$4.38 per 100 pounds in April-June, up 45 cents from a year earlier. Milk for fluid use, at \$4.75, and manufacturing grade milk, at \$3.66, were up about the same from a year earlier. The strong demand and tight supply situation in second half 1966 means milk prices to producers will continue above year-earlier levels. Manufacturing milk prices likely will average above the new support level in second half 1966.

Butter and nonfat dry milk usually utilize about 1/4 of total milk production but, with reduced milk supplies, plants continue to shift milk to other dairy products. In June, cheese production was 6 percent above June 1965, while butter was 14 percent below. Butter and nonfat dry milk output are expected to remain below last year through 1966.

Dairy product imports to the U.S. rose sharply in second quarter because of our attractive prices relative to world prices and because dairy exporting countries have ample milk supplies. January-May dairy imports were 929 million pounds milk equivalent compared with 395 million a year earlier and about 1 3/4 percent of the U.S. milk output for the period. In terms of milk equivalent most of the increase in dairy product imports is occurring in products not subject to quota limitations--fresh frozen cream, Colby cheese, and milkfat/sugar products, especially the latter. In June, USDA established import limitations on mixtures containing sugar and butterfat or flour. This action restricts the imports of butterfat products containing over 25 percent sugar to small quantities from Australia and Denmark.

### Poultry and Eggs

During the first half of 1966 there were fewer layers on farms than a year earlier, and egg production of 90 million cases was down 1.5 percent. Demand has been strong and prices to producers in the first quarter averaged 40.1 cents per dozen, 9 cents above the depressed levels of a year earlier. As output rose seasonally above consumption in the second quarter, prices declined to 34.8 cents per dozen, but were still 4 cents above April-June 1965. July prices averaged 35.4 cents per dozen compared with 32.9 cents in June and 31.6 cents in July 1965. Egg production may continue a little under 1965 levels through summer because heavy culling of older flocks is expected to continue. However, producers are raising 335 million chickens as flock replacements this year--12 percent more than in 1965 and the largest number since 1961. By the fourth quarter, when most of the new pullets will be laying, egg production is expected to be larger and prices lower than a year earlier.

Broiler slaughter in the first half of 1966 averaged about a tenth above the first half of 1965. But demand for broilers was exceptionally strong, partly because of light supplies and high prices for pork. Prices to broiler producers averaged well above year-earlier levels during most of the period and U.S. farm prices in July averaged 16.1 cents per pound, the same as in June 0.6 cent above July 1965. Broiler supplies, now seasonally

large, will decline into the fall. But the high level of chick placements for broilers and for broiler hatchery supply flocks in recent months is expected to keep broiler production during the rest of 1966 significantly above 1965 levels. Consumer demand will remain strong; but with an increase in supply of high protein foods over the next several months, especially pork, broiler prices are likely to weaken and during late summer and fall they probably will average below those of a year earlier.

Turkey producers are raising about 12 percent more birds this year than last. Much of the increase in numbers came from early hatched poults, so more than one-third of the increased production has already been marketed. Prices to turkey producers in January-April averaged about 24 cents a pound, about  $1\frac{1}{2}$  cents more than in January-April 1965. But with the substantially larger early season production, prices in May-July averaged  $22\frac{1}{2}$  cents, a little below a year earlier. Frozen turkey stocks in mid-1966 were at the low point for the season. On July 1, they totaled 66 million pounds, 4 million pounds less than on July 1, 1965. With the larger supplies in prospect this fall, prices in the main marketing season (September-December) are likely to average below 22.2 cents received in those months of 1965.

### Wool

Prices received by growers for shorn wool this year increased from a low of 47 cents a pound, grease basis, in January to a high of 54 cents in May. Compared with a year earlier, monthly prices ranged from 4 to 14 percent higher during January-June 1966. The average of monthly prices in this period was up about 9 percent from a year earlier.

Mill use of raw apparel wool in the United States in 1966 likely will total 290 to 295 million pounds, scoured basis. This would be about 7 percent more than the 275 million pounds used during 1965. Wool mill activity likely will continue relatively high during the remainder of 1966 as a result of low inventories relative to a high level of unfilled orders of finished wool apparel fabrics. Carpet wool consumption during 1966 in U.S. mills likely will total only slightly more than the 112 million pounds, scoured basis, used in 1965.

U.S. imports of dutiable raw wool during the first 6 months of 1966 were up 27 percent compared with a year earlier and totaled 104.6 million pounds, clean content. Duty-free raw wool imports amounted to 56.1 million pounds, clean content, during the January-June period of 1966. This was up 13 percent compared with a year earlier.

Total imports of wool textile products during the first 5 months of 1966 increased 10 percent from the comparable period a year earlier and amounted to 61.6 million raw wool equivalent pounds. Imports of apparel wool products and wastes were up; those of carpets and rugs, and noils were down.

World wool prices increased almost 5 percent during the first 4 months of 1966 before dipping very slightly in May and June as the season came to a close. Drought affected wool likely contributed to the recent easing in prices. World



wool production for the 1966-67 season likely will show little change from the previous year. Mill use of wool, however, increased during late 1965 and early 1966. With the current rate of world wool use continuing above production in 1966, world prices can be expected to show some additional increase.

## CROPS

### Wheat

The supply of wheat in 1966-67 is likely to total around 1,780 million bushels, 365 million below a year earlier and the smallest supply since the 1952-53 crop year. The July 1, 1966 carryover was estimated at 536 million bushels, down 282 million from that date in 1965, while the July Crop Report placed production in 1966 at 1,240 million bushels.

Domestic disappearance is expected to be somewhat smaller in 1966-67 than last year's 742 million bushels, resulting from substantially smaller use of wheat for feed, possibly 80 to 100 million bushels less. In 1965-66, feeding of wheat totaled about 156 million bushels. Wheat prices have remained unusually strong during the harvest period and are likely to average well above the price support loan during the year. Total exports will be down in 1966-67, but commercial exports may continue at a high level. Exports totaled 867 million bushels in 1965-66, a new record, with commercial exports accounting for about 280 million.

### Rice

The July Crop Report estimated rice production in 1966 at 81.1 million hundredweight (rough equivalent), a new record and about 4 million hundredweight above last year's crop. The carryover on August 1, the start of the new marketing year, is now expected to total near 9 million hundredweight. Along with some imports, the total supply of rice in 1966-67 is likely to be slightly in excess of 90 million hundredweight, an all-time record supply.

Exports during 1965-66 are now estimated at 44.5 million hundredweight with commercial exports accounting for about 27 million. Both of these categories exceed the previous record levels of 1964-65.

### Feed Grains

The feed grain supply for 1966-67 will total about 207 million tons on the basis of July 1 prospects, 10 million below last year's supply and 13 million tons below the 1960-64 average. A 1966 feed grain crop based on July 1 indications would be about 158 million tons (including an allowance for sorghum grain), slightly less than last year but 8 percent above the 5-year average. The prospective reduction in the 1966 feed grain crop is due to a lower yield per acre--1.57 tons compared with 1.62 in 1965. The total acreage planted to feed grains was estimated at 120.3 million, about a million more than in 1965.



The corn supply for 1966-67 was estimated at a little over 5.2 billion bushels, as of July 1, slightly less than in 1965-66 and about 4 percent below the 1960-64 average. The prospective crop of 4,221 million bushels, based on July 1 indications, would be about 50 million more than last year's record crop. The October 1 carryover may be about 15 percent below the carryover of 1,170 million bushels in 1965. Farmers will harvest nearly 59 million acres of corn this year, nearly 2 million more than in 1965, but yield per acre indicated at 71.8 bushels is 1.3 bushels less.

The 1966-67 oat supply was estimated at a little over 1.2 billion bushels, 2 percent smaller than in 1965-66 and 6 percent below average. An oat crop of 897 million bushels is in prospect, 6 percent below last year's production. The barley supply for 1966-67 is estimated at 504 million bushels, 4 percent below the 1965-66 supply and 13 percent below the five-year average. The 1966 barley production indicated at 381 million bushels would be 7 percent less than last year. Acreage planted to sorghum grain was estimated at 16.4 million, 5 percent less than in 1965. The first official estimate of the crop will be released in the August 10 Crop Report.

Total utilization of feed grains in 1965-66 is now estimated to be about 11 percent above last year's 152 million tons, reducing carryover into 1966-67 to below 50 million tons, compared with 56 million at the beginning of the year. Domestic consumption this year is expected to be around 10 million tons more than the 130 million in 1964-65 and a little above the previous record consumption in 1961-62. Exports have increased sharply and are expected to total around 29 million tons, a third larger than in 1964-65.

The heavy disappearance of feed grains so far this year reduced July 1 stocks to 74 million tons, 8 percent below a year earlier and substantially below the record high of 109 million on July 1, 1961. Domestic use during October-June was 113 million tons, 9 percent above a year earlier. Exports amounted to 22 million tons, 44 percent more than in that period of 1964-65. Total requirements have exceeded production in 4 of the last 5 years, resulting in a substantial movement from Government stocks into domestic and export markets. Stocks under loan and owned by CCC were at a record high of 79 million tons on July 1, 1961, but since have declined to about 40 million on July 1 this year. Stocks of 34 million tons outside of the Government program were the highest in several years.

The generally favorable returns from livestock production in 1965-66 have encouraged liberal feeding per animal and a strong demand for feed grains. Even though the 1965 feed grain crop was 17 percent larger than in 1964, feed grain prices during October-July averaged only 2 percent lower than a year earlier; and excepting last year, they were the highest since 1956-57.

The price of corn has advanced more than seasonally again this year from 98 cents in November to \$1.27 per bushel in July. This rise has been largely due to a strong demand and has occurred in spite of much larger "free" stocks than were on hand in 1964-65. This is the fourth year that corn prices have made a substantial seasonal rise during the marketing year, and the third

year that corn prices have averaged well above the loan rate. Sorghum grain prices also have been above the loan rate this year, but they have been lower than in most recent years in relation to corn.

Farmers placed 10.0 million tons of 1965-crop feed grains under price support, continuing the relatively small loan activity for the third straight year. The quantity of corn placed under loan totaled 213 million bushels, slightly less than last year. Sorghum grain put under loan totaled 106 million bushels, up 28 percent from last year but well below that from the 1962 and 1963 crops.

#### Oilseed, Fats and Oils

In July 1966, soybean prices to farmers averaged \$3.37 per bushel, 68 cents above July 1965 and the highest since July 1954. Soybean prices increased from a seasonal low of \$2.34 last fall. For September-July 1965-66, they averaged \$2.70 per bushel, about the same as this time last year. Soybean prices are expected to remain strong into the fall. Total stocks of soybeans in all positions on July 1, 1966, were 134 million bushels, or about 2 percent above last July 1.

For the entire marketing year which began September 1, 1965, crushings are placed at 535 million bushels, compared with 479 million last season. During September-June, crushings totaled 455 million bushels, approximately 50 million above a year ago. An average of around 40 million bushels a month is expected to be crushed during July and August compared with about 37 million per month for last July and August. The tight supplies again this summer are a factor limiting soybean crushings.

According to inspection reports for the period September 1, 1965 through July 29, 1966, 239 million bushels of soybeans were exported compared with 201 million a year ago. Total exports for the entire 1965-66 marketing year are placed at 255 million bushels, about 20 percent more than the 212 million of 1964-65. Carryover stocks of soybeans on September 1, 1966, are now estimated at around the 30 million bushels of year ago.

Based on the July 1 Crop Report, planted soybean acreage in 1966 is placed at a record 37.7 million acres, up about 7 percent from the 35.4 million acres of 1965. Acreage increased in all regions, however, 6 States--Minnesota, Iowa, Missouri, Arkansas, Mississippi and Louisiana--accounted for almost three-fourths of the entire increase. Farmers intend to harvest 36.9 million acres for beans, up about 7 percent from 1965. The first forecast of yield and production for the 1966 crop will be in the August Crop Report.

#### Fruit

Based on July 1 conditions, the 1966 U.S. deciduous fruit crop will be moderately smaller than last year but 7 percent above the 1960-64 average. The 1966 apple crop, because of unfavorable weather in the Central and Eastern



States is expected to be lighter than last year but will still be above average. Likewise, a grape crop well below last year's record large production but substantially above average is indicated. Sour cherry production, primarily because of freeze damage in the Great Lakes States, is expected to be curtailed sharply. The apricot and prune crops are also expected to be smaller than in 1965. But larger crops are forecast for all other fruits. Peach production will be somewhat larger this year due mainly to a bigger California Clingstone crop--a variety used primarily for canning. The pear crop will also be substantially larger than last year's short crop as a result of improved production prospects for Bartlett pears in California and Washington. California nectarine production is expected to be record large.

On June 1, the beginning of the new season for processing deciduous fruits, packers' stocks of important canned and frozen items with the notable exceptions of apple slices and sauce, fruit cocktail, purple plums, and strawberries were moderately to substantially smaller than a year earlier. Output of some processed deciduous fruits, especially peaches and pears, is expected to be substantially larger than in 1965-66. Reductions from a year ago probably will be the largest for canned and frozen cherries, apples, dried prunes and raisins. With improved crop prospects for Clingstone peaches and Bartlett pears--two fruits usually processed in substantial quantities--prices somewhat below the relatively high current levels are indicated. But price increases are indicated for other fruits expected to be in shorter supply such as sour cherries.

Almond, filbert and walnut production is expected to be 16 percent above 1965 and 25 percent above the 1960-64 average. Substantial increases are anticipated for each of these tree nut crops. Walnut production, in particular, will be the largest of record.

Compared with a year ago, unharvested supplies of California Valencia oranges and lemons are somewhat smaller. Shipping point prices for oranges and lemons in early mid-July were moderately to considerably higher than last year. In Florida, harvest of the 1965-66 citrus crop is practically over. The 1965-66 U.S. citrus crop was 14 percent above previous season and 18 percent above average. As of mid-July, 1966-67 citrus crop prospects were generally favorable.

Despite the heavier citrus production of the 1965-66 season, output of Florida frozen concentrated orange juice was about 20 percent less than a year earlier due to lower yielding fruit and tighter industry standards for the finished product. However, output of most other principal Florida processed items, has been moderately larger this season than last. Production of chilled citrus items (juice, sections and salads) was increased substantially. With the exception of frozen concentrated orange juice, stocks of which were down substantially, supplies of important processed citrus items were about the same to considerably larger than a year ago. Retail prices for leading items other than orange concentrate continued below year-earlier levels.



Commercial Vegetables

Fresh: Output of fresh vegetables this summer is expected to total a little less than a year earlier, with smaller supplies indicated for many items. Because of unfavorable spring and early summer weather, harvests in Eastern and Midwestern areas were sharply curtailed, and markets were exceptionally strong during July. Somewhat lower prices are in prospect the next 4 to 6 weeks as marketings reach their usual seasonal peak. However, with production of many items down, prices likely will average moderately above those of a year earlier.

Prospective summer supplies of both watermelons and cantaloups are relatively small. Acreage and yields of watermelons have been reduced by adverse weather; total summer tonnage is materially below last year and average. Cantaloup supplies will be smaller this year than last because of less acreage in California where two-thirds of the supply is grown.

Processed: Supplies of canned and frozen vegetables probably will be relatively large during the 1966-67 marketing season. Early reports indicate total acreage for processing is up substantially from last year, with increases in all major items. With average yields, output will be close to the record tonnage in 1962. Although part of the increase in packs will be offset by relatively small carryovers, aggregate processed supplies next season are expected to be at least moderately larger than those available in 1965-66. Supplies of all leading processed vegetables are expected to be ample, and those of canned snap beans, pickles, and several tomato products may be heavy. Record large supplies of frozen sweet corn and snap beans appear likely.

Potatoes and Sweetpotatoes

Supplies of potatoes for summer marketing are heavy. The early summer crop, at 14.4 million hundredweight, is 21 percent larger than a year ago. Acreage was up substantially, and yields are much above those in 1965 when dry weather was a problem. Late-summer tonnage is estimated at 32 million hundredweight, up 5 percent from 1965 and 8 percent above the recent 5-year average. Eastern output is about the same as in 1965, but prospective tonnage is up moderately in the Midwest, and substantially in the West. Production in Washington, the leading seasonal producer is 12 percent above 1965 and more than a fourth above the recent 5-year average. During July, markets in all areas were under heavy pressure with prices averaging sharply below those of a year earlier. Fall-crop acreage is up 5 percent from last year. Acreage is the same as last year in the Midwest but up 9 percent in the West and 4 percent in the East.

Because of less acreage and prospective lower yields, sweetpotato production is down 16 percent from last year. Only light supplies will be available through the summer but marketings will increase in the fall, reaching a peak during the holiday season. Prices during the 1966-67 season likely will average materially above the low prices of last season.

Dry Beans and Peas

Supplies of dry edible beans are expected to be much larger during the 1966-67 marketing season than in the previous season. Although carryover stocks will be light, prospective output is up sharply. As of July 1, production was estimated at 20.2 million hundredweight compared to the short crop of 16.5 million last year. Although domestic and export use likely will be up, the prospective supplies are large relative to trade needs, indicating considerable pressure on prices for 1966-crop beans. In contrast, prospective dry pea supplies are relatively light due to a small crop, and prices likely will average higher this season than last.

Cotton

U.S. cotton exports are expected to rise sharply during the 1966-67 marketing year (beginning August 1). U.S. mill consumption is also expected to rise, but only slightly. As a result, total disappearance for the new year is projected at about 15 million bales compared with about 12½ million bales during 1965-66.

Cotton exports during 1966-67 are projected at around 5½ million bales, up about 2½ million bales from the 3 million estimated for 1965-66. The estimate for 1966-67 is based on anticipated record-high consumption of cotton in foreign Free-World countries and some rebuilding of cotton stocks abroad. Consumption of cotton is expected to be stimulated by lower world cotton prices, which are now being quoted for the 1966-67 crop at 1-cent or more per pound below the 1965 level.

U.S. mill consumption of cotton during 1966-67 is expected to rise slightly from the 9½ million bales estimated for 1965-66 to the highest level since the 1950-51 crop year. Slightly larger consumption for 1966-67 is based on continued strong economic activity, continued large civilian and military purchases of textile products, and further gains for cotton use in the domestic market because of cotton's improved price position. The high rate of consumption in recent months supports the expectation of slightly higher consumption in 1966-67.

As of July 1, U.S. acreage planted for the 1966 crop was estimated at 10,567,000 acres. This is down 25 percent from the 14,153,000 acres planted for the 1965 crop and the smallest acreage in almost 100 years. Grower participation in the 1966-67 program sharply reduced the planted acreage. Producers signed up to remove about 4.6 million acres from production compared with about 1 million acres in 1965 under the domestic allotment program. Under the 1966 program, producers could divert up to 35 percent of their farm allotment and many producers chose this option. For all acreage diverted, the rate of payment to producers is 10.5 cents per pound on the projected yield of the acreage diverted.

In addition to diversion payments, participating producers are eligible for a loan rate of 21 cents per pound, basis Middling 1-inch cotton at average



location, and for price support payments of 9.42 cents per pound on projected production on domestic allotment (which is 65 percent of the total farm allotment). Farms with effective cotton allotments totaling 15.1 million acres are participating in the 1966-67 program. This acreage represents about 98 percent of the 15.4 million acre effective national allotment.

Carryover of cotton on August 1, 1966, probably totaled about 16.8 million bales (16.6 million upland cotton). This is  $2\frac{1}{2}$  million bales above a year ago and over 2 million bales above the previous high in 1956. Carryover increased sharply as a result of a decline in disappearance and a large 1965 crop--resulting from record-high yields. The decline in disappearance reflected a drop to about 3 million bales in U.S. cotton exports, down from about 4.1 million in 1964-65. Exports were down because of increased competition from record production in foreign countries and a working down of stocks in both importing and exporting countries.

U.S. mill consumption rose to about  $9\frac{1}{2}$  million bales (9.4 million upland cotton) in 1965-66, up from 9.2 million in 1964-65, and 8.6 million in 1963-64. Mill consumption has been trending upward in response to increasing civilian and military demands for cotton products and in response to reduced prices for raw cotton.

### Tobacco

In the year ended June 30, 1966, U. S. smokers consumed an estimated 534 billion cigarettes--about 2 billion more than a year earlier and more than in any previous fiscal or calendar year. The 1965-66 shipments for use by overseas forces were the largest since 1952, and the increase in these shipments accounted for the gain in the total consumption figure.

Cigar and cigarillo consumption in the year ended June 30, 1966, was estimated at around 8.6 billion--about 300 million fewer than in 1964-65, but about 335 million more than in 1963-64. Consumption of smoking tobacco in 1965-66 was near 71 million pounds--7 percent less than the previous year. The 1965-66 output of chewing tobacco, at about 65 million pounds, was slightly above 1964-65, but output of snuff, at about 30 million pounds, was a little below a year earlier.

The July 1 indication for 1966 production of all types of tobacco combined, at 1,909 million pounds, is 3 percent above 1965. Acreage for harvest is estimated at nearly 1 percent above last year.

The indicated 1966 flue-cured crop is about an eighth larger than the relatively small crop in 1965. Under the acreage-poundage program in effect for this kind, the national marketing quota for 1966 was set at the same level as last year, but growers who marketed less than their quotas in 1965 can sell an additional quantity in 1966 to make up for last year's undermarketings. Carryover of flue-cured in mid-1966 is down from the peak a year earlier. The 1966-67 total supply--carryover plus this year's marketings--may be about the same as in 1965-66, but is significantly lower than the 1964-65 record level.



Auction markets for flue-cured tobacco in Georgia and Florida--the southernmost belt--opened July 27. Prices for the first 3 days' sales averaged 68.0 cents a pound, compared with 65.0 cents a year earlier. Auction markets in South Carolina and Border North Carolina are scheduled to open August 9, and other markets in North Carolina and Virginia open later in August and September.

The Government overall price support level for 1966 flue-cured tobacco is 58.8 cents per pound--1.1 cents above 1965. This season, price supports are available on untied tobacco of all grades during the first 12 days in markets that traditionally have sold only tied tobacco; tied tobacco will receive price support throughout the season. In the past 3 seasons in these market, prices of untied flue-cured tobacco of only certain designated grades were supported for the first 7 days. Price-support rates on untied tobacco are 3 cents a pound lower than for tied tobacco--the same differential as in the 1965 season.

Production of burley tobacco, which continues under the acreage allotment program, is indicated to be 11 percent below 1965. Carryover may be down a bit, and adding this year's crop would result in a total 1966-67 supply 4 percent lower than the previous year.

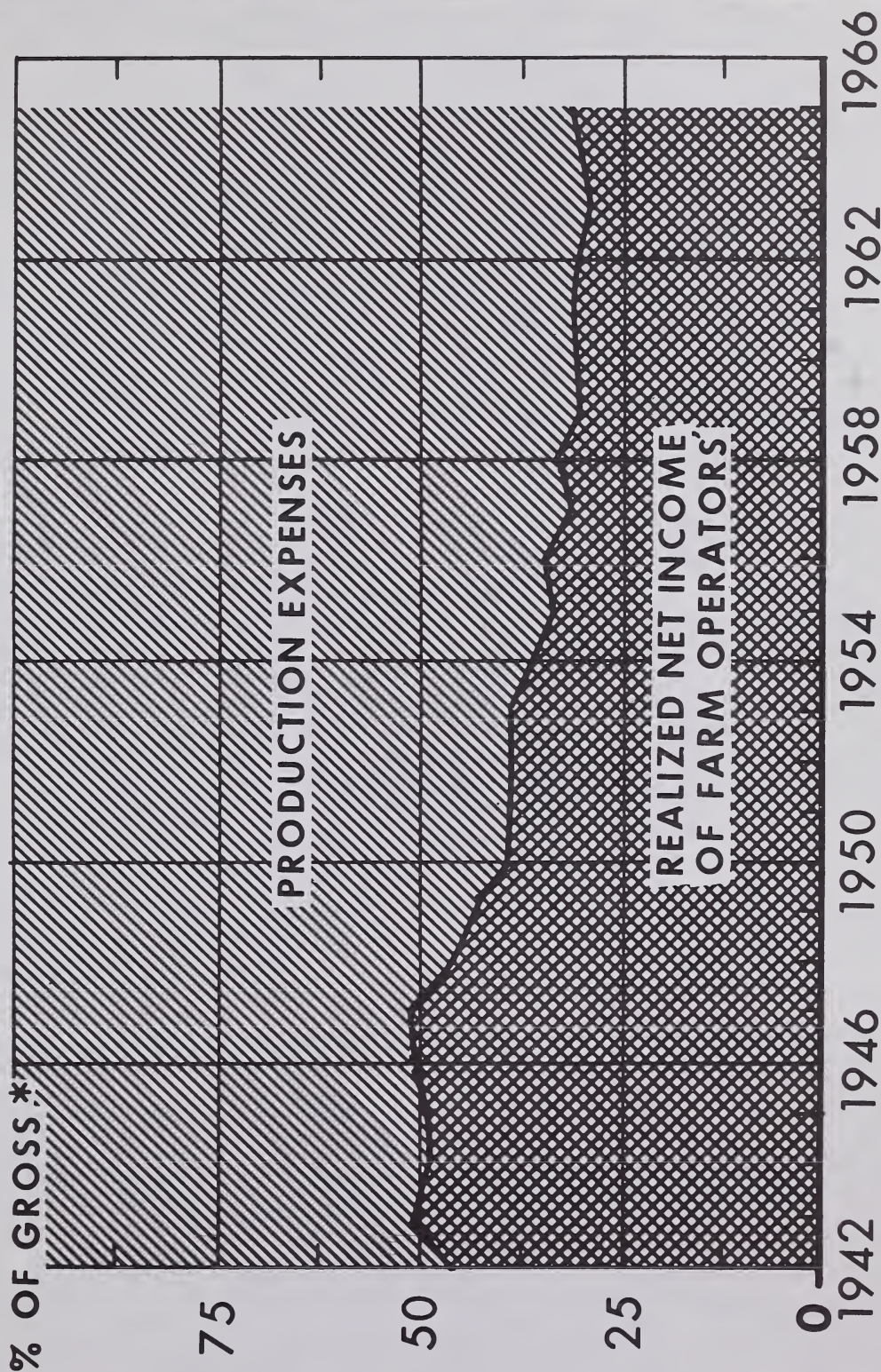
Auction sales of the 1965 Maryland crop ended July 1. The season average auction price was 65.6 cents a pound--nearly 4 cents above the previous crop's auction average and highest on record. The quality of 1965 Maryland tobacco exceeded that of the 1964 crop, which was also of better than average quality. About 8 percent of market deliveries were placed under loan, compared with 11 percent last season and 37 percent the season before, when quality of the crop was adversely affected by drought. The 1966 indicated crop of Maryland tobacco--not being produced under acreage allotments since growers disapproved marketing quotas--is 39.6 million pounds, about 1 million more than estimated 1965 production.

July 1 indications were for increases from last year in production of fire-cured and Ohio filler tobaccos, but moderate declines in cigar binder and wrapper and Pennsylvania filler; relatively little change is indicated for the combined dark air-cured crop.

U. S. exports of unmanufactured tobacco in the year ended June 30, 1966, declined about 2 percent below 1964-65. A broadened program to regain and expand foreign markets for U. S. tobacco went into effect July 6, 1966. Export payments of 5 cents per pound are applicable to all crops (including tobacco remaining from prior years) for the kinds of tobacco on which Government price support is offered for the 1966 crop. Tobaccos not covered are cigar wrapper, Pennsylvania cigar filler, and Maryland tobaccos. The payments are in addition to the 5-cent per pound rebate or payment on selected crops of previous years announced earlier this year. Exports of unmanufactured tobacco in fiscal 1966-67 probably will exceed 1965-66 by a sizable margin. Shipments of flue-cured--the principal export class--are expected to be significantly larger than in 1965-66.



# NET INCOME AND EXPENSES



\* REALIZED GROSS FARM INCOME.

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